

March 10, 2003

To: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

2003-04 AND MULTI-YEAR FORECAST

In preparation for our 2003-04 Proposed Budget recommendations scheduled to be presented to the Board on April 15, 2003, we have developed the attached preliminary fiscal forecast for 2003-04 and a multi-year forecast for 2004-05 and 2005-06. The forecast for 2003-04 will be further refined as the budget process progresses. The long-range forecasts for fiscal years 2004-05 and 2005-06 were developed with current information and consequently are more tentative.

The 2003-04 County forecast reflects a projected shortfall of \$205.4 million for the General Fund. In addition, the impact from the State's FY 2003-04 Proposed Budget is not included in the attached forecast; however, we are closely monitoring the issues and proposals of the Governor's budget. The County forecast may be summarized by the following:

GENERAL FUND

The 2003-04 General Fund forecast (excluding Health) reflects \$777.2 million in additional costs, partially funded by \$571.8 million in anticipated additional revenues and deletion of one-time funding, resulting in a net shortfall of \$205.4 million. In summary, this includes:

Expenditure/Costs

- A reduction of \$503.4 million in fund balance, leaving a projected on-going operating fund balance of \$100.0 million.
- Additional cost increases related to caseload growth for In-Home Supportive Services and Children and Family Services programs.
- Funding for the continued deferral of SB90 cost reimbursement from the State.
- Funding for the County's penalty assessment due to the Federal Food Stamp Error sanctions.
- Wage increases for In-Home Supportive Services workers.
- Funding for the development and implementation of the financial module of the Los Angeles County Administrative System (LACAS).
- The commitment to provide an additional \$10.0 million contribution each year, through 2004-05, to the Department of Health Services as a result of the phase out of the 1115 Waiver agreement.
- Potential impact to Probation and the County's share of court revenues from the implementation of AB3000 that places a lower priority on the distribution of funds to counties for reimbursement of services.
- Funding for the final portion of negotiated salary and employee benefits and fringe benefit increases.
- Funding for the sixth year of the multi-year LACERA buy-down program.

Funding/Savings

Included in Funding/Savings are projected revenue decreases in Statewide sales tax revenue programs offset by increases in Countywide revenues and the deletion of one-time funding as detailed below:

- Estimated decrease in Realignment Sales Tax revenue by 4.5 percent based on trend and economic forecasts.
- Projected decrease in Public Safety Sales Tax (Proposition 172) by 4.78 percent for the District Attorney and Sheriff Departments.

- Increased revenues for Property and Deed Transfer Taxes based on current economic forecasting data, which indicates continued demand for housing in Los Angeles County.
- Projected increase in Vehicle License Fee revenues by 2.9 percent based on current forecasting data.
- Deletion of one-time funding provided in the 2002-03 budget for Capital Projects, Appropriation for Contingencies, Extraordinary Maintenance and Project and Facility Development.

The FY 2003-04 forecast reflects preliminary estimates and is indicative of the sluggish economic recovery of the State, coupled with the threatened military engagement in Iraq, which has continued to depress Statewide revenues during the past year. Consequently, various alternatives including utilizing the current year's contingency to increase the 2003-04 fund balance, minimizing or eliminating one-time infrastructure costs, further refining revenue projections and program curtailments will be considered to close the projected forecast deficit of \$205.4 million.

HEALTH SERVICES

In its February 10, 2003 Budget Committee of the Whole memorandum, the Department of Health Services reported a projected shortfall by 2005-06 of \$205.2 million. This revised projection reflected the passage of the Measure B trauma tax, the acceleration of Rancho Los Amigos alternative governance or closure (and related redistribution under current law of Medi-Cal disproportionate share hospital revenue), and the State/Federal Transition Agreement. My office will continue to work with the Department on its future year projections, with respect to implementation of the Board-adopted System Redesign components and 2003-04 Proposed Budget requirements. Additional information will be provided to your Board on an ongoing basis as part of the Department's Budget Committee of the Whole reports.

As noted above, these forecast estimates are very preliminary, and we will continue to monitor and refine them in developing our 2003-04 Proposed and Final Budget recommendations to the Board. Please let me know if you have any questions.

DEJ:DIL
JW:JT:vyg

c: All Department Heads

2003-04 to 2005-06 FORECAST - MAJOR COMPONENTS

(\$ in millions)

General Fund Only

(excluding General Fund - Health Services)

	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
EXPENDITURES/COSTS			
Fund Balance - Net Change	\$503.4	\$0.0	\$0.0
Board Orders	1.3	2.1	0.9
Caseload /Assistance Changes	37.9	21.2	24.3
Other Program Changes	165.8	68.6	32.5
Revenue Reductions	8.7	1.3	1.3
Countywide Salaries and Employee Benefits	60.1	130.3	165.0
Total Expenditures/Costs	<u>\$777.2</u>	<u>\$223.5</u>	<u>\$224.0</u>
FUNDING/SAVINGS			
Countywide Revenue			
-- Property Tax	\$81.6	\$51.4	\$52.9
-- Local Sales Tax	1.0	0.4	0.5
-- VLF - Regular	19.8	14.0	14.3
-- Realignment - Sales Tax (Discretionary Social Services Only)	(22.2)	17.3	17.8
-- Realignment - VLF (Discretionary Social Services Only)	1.2	0.6	0.6
-- Deed Transfer Tax	7.0	0.5	0.4
Other Revenue	(25.3)	12.6	12.8
Deletion of One-Time Funding	508.7	71.7	68.5
Other Savings	0.0	13.8	13.8
Total Funding/Savings	<u>\$571.8</u>	<u>\$182.3</u>	<u>\$181.6</u>
NET BALANCE TOTAL	<u>(\$205.4)</u>	<u>(\$41.2)</u>	<u>(\$42.4)</u>